

## Section 5: Recommended Efficiencies

Based on information from the CAC, local transportation agencies, transportation organizations, public testimony obtained from the various statewide meetings, and their own discussions, the Task Force collected a diverse and creative set of efficiency, reform, and best practice options to review. Highlighted here are those options deemed to have the highest potential to stretch existing transportation revenue.

A complete list of the efficiencies, reforms, and best practices provided to the Task Force is available by clicking "View Final Report" at [www.michigan.gov/tf2](http://www.michigan.gov/tf2).

### ***Administrative Efficiencies and Reforms***

#### **Continue to review bonding and bond refinancing policies for possible savings.**

The sale of bonds to accelerate infrastructure construction can be an effective tool to accomplish much-needed infrastructure updates. Large bridges, such as the Mackinac, Blue Water, and International, were all funded with bonds repaid by toll-revenue streams.

In the 1990s, MDOT's bond debt load hovered between \$630 million and \$680 million. Since 2001, MDOT has sold several bond issues backed by future state revenue and federal funds, pushing today's debt load above \$2 billion.

A debt load of this size requires active management, and MDOT closely monitors the bond market, identifying and refunding those bonds where interest savings are possible. Since 2004, MDOT has completed four bond refundings, saving nearly \$20 million in transportation funds which can then be redirected to projects rather than debt service.

#### **Reclassify MTF Funds as "trust funds."**

Although the MTF is constitutionally dedicated to transportation, the fund is not currently considered a *trust fund* by the Michigan Department of Treasury. Reclassifying the MTF as a trust fund will allow MTF balances to earn a slightly higher rate of interest, which will generate additional revenue for transportation investment.

#### **Grant audit authority over road commissions and municipalities to ensure compliance with Public Act 51 of 1951.**

P.A. 51 of 1951 and P.A. 275 of 2008 authorize the Department of Treasury to conduct financial and performance audits of local road commissions and municipalities to ensure state funds received by these entities are expended in compliance with state law. In addition, MDOT audits select local transportation programs and services supported with state revenues to ensure compliance with relevant state and federal requirements. The proposed efficiency would expand audit authority to allow additional oversight responsibilities by the appropriate agencies. The benefit of this efficiency is it allows the expertise of each state agency to be used to address problem areas that may not be under the purview of the state treasurer.

#### **Review reporting requirements to eliminate redundancy.**

Federal and state law often includes reporting requirements for local, state, or federal transportation agencies. Reporting requirements may also be included in annual legislation for MDOT's budget. The collection, incorporation, and dissemination of this information to the various state, local, and federal entities uses limited administrative resources that could

better be used to improve program services or increase grant allocations. By eliminating redundant reporting requirements, more funding could be reallocated to transportation programs and services, which directly benefit businesses and the traveling public.

Within the passenger transportation area, for example, there are similarities in the state and federal reporting requirements, and every effort is made to avoid duplication. But federal reporting regulations for transit agencies appear to be increasing. When new federal requirements are put in place that require MDOT to seek reports from transit agencies, if MDOT already has state reporting requirements in place, every effort should be made to capture the state and federal information in one form to reduce the burden placed on these reporting agencies.

**Post all expenditures online for all to see.**

The posting of all expenditures online ensures transparency and holds the transportation agencies accountable for how public funds are spent. This option would allow taxpayers to monitor the cost of transportation services and construction costs in a user-friendly format. It would provide citizens with an oversight tool, helping to instill public trust, and improve cooperation. The benefits of this option include improving program oversight, encouraging public participation, ensuring transparency on how transportation funds are allocated and expended, reducing Freedom of Information Act (FOIA) requests; and reducing the related administrative costs.

## ***Organizational Efficiencies and Reforms***

**Create corridor authorities to enhance a particular corridor.**

Corridor authorities focus resources in a particular economic development corridor that may cross multiple jurisdictions. This allows the corridor authority to identify funding sources available to improve the corridor, such as Tax Increment Financing Authorities (TIFAs) and other local-option sources that may be enabled. A corridor authority has the ability to facilitate regionalism, expedite construction, improve regional mobility, and foster economic development in high-density corridors.

**Encourage regionalism.**

There are many examples of regional transportation programs and projects currently being implemented in Michigan, too many for the scope of this report. The benefits provided by a more regional approach are many. Regionalism encourages more efficient service, innovation, better infrastructure maintenance, better use of resources, reduced congestion, and reduced overhead and administrative costs.

As an example of this, MDOT staff works with transit agencies to encourage cooperation and regional coordination. However, the role of the state in encouraging regional transit services is fairly limited.

Under current state law (P.A. 432 of 1982 and P.A. 271 of 1990), transit agencies are required to have interlocal agreements in place to operate outside of their service area. If they do not have these agreements in place, their services are subject to regulations that govern private, for-profit carriers. The primary obstacles to interlocal agreements are likely to be the pressure local transit agencies feel to provide services within the service area defined by a local millage or the cost of providing the level and frequency of service that are needed to make cross-county transit services effective.

Regionalism is an issue often raised in Southeast Michigan. Prior efforts to establish a regional transit authority in this area have failed. Currently, the Regional Transportation Coordinating Council (created under P.A. 204 of 1967) is developing a comprehensive regional service plan, including recommendations for enhanced coordination between DDOT and SMART. There is belief among many that effective regional transit in Southeast Michigan is dependent on state law to create a regional authority, with limited opt-out capabilities and regional taxation capacity.

Any additional state law or program that encourages regionalism should focus on both local transit and intercity passenger services – bus and rail. Coordination among the modes is a critical factor in regionalism. Also, within the intercity passenger services, coordination among states is very important.

Regional service could be fostered by providing ongoing financial support for regional mobility managers. Cooperation by transit agencies in a region could be assured by requiring a regional coordination plan, including a plan for a regional mobility manager, as a condition for receiving state formula operating assistance. Additional state funds would be needed to support the planning and coordination process.

**Expand use of value engineering on all projects.**

Value engineering comes in two different forms. The first form entails a contractor recommending a design plan modification that will result in reduced construction costs. The second form is encompassed in a federal requirement that when a road agency receives at least \$25 million in federal project funding, the design plan must be reviewed by an outside design expert to ensure that the most cost-effective design is being used. This recommendation would require value engineering to be expanded to more projects. The benefits of this efficiency include better roads, reduced congestion, reduced vehicle maintenance costs, and construction costs savings that could be redirected to other priorities.

**Expand the Asset Management Program to include all public roads, pavement, ancillary elements, and utility location.**

Michigan's highly successful Asset Management Program is a data-driven, decision-making process that helps road agencies identify the investment needed to maximize the service life of road and bridge infrastructure. The program is currently applied (through the Asset Management Council and works closely with MDOT and local road agencies) only to the 30,000 or so miles of federal-aid eligible highways and bridges, and focuses primarily on pavement and bridge condition. Expanding the Asset Management Program to include ancillary elements such as drainage, lighting, and other features will extend the benefits of this program to other aspects of the roadway that are important to safety and to pavement condition. Expanding the program to all roads will have similar benefits. This effort will require time and much additional data will need to be gathered before it can be fully implemented, but the potential exists through this program to ensure the very best use of invested funds.

**Expand authority of the State Transportation Commission to require management standards, benchmarks, reports, and accountability for all recipients of state transportation funding as a condition of that funding.**

The powers and authority of the State Transportation Commission (Commission) is conferred by Article V, Section 28 of the Michigan Constitution of 1963 and P.A. 286 of 1964. The Constitution requires the Commission to establish policies for MDOT programs, facilities, and other public works. The director of MDOT executes the policies outlined by the Commission. In addition, P.A. 286 authorizes the Commission to award contracts for

the construction, improvement, and maintenance of highways and related transportation facilities.

Expanding the policy-making authority of the Commission to include programmatic oversight and accountability standards for programs and services that receive funding from transportation revenues would require the Commission to take a more active role on how transportation revenues are being expended and hold receiving agencies more accountable for program outcomes and outputs, thereby ensuring greater programmatic efficiency and oversight.

Any expansion of the Commission's role should not replace or duplicate the critical role played by local transportation officials. The state's role should be limited to ensuring local systems have locally established management standards and methods in place to ensure accountability to travelers and taxpayers.

**Establish performance standards for all agency operations, and use of performance factors in funding allocations.**

The current funding allocation structure for various transportation agencies is based on distribution formulas in state law. While the Task Force recognizes that most agencies work diligently to make the best use of funds and provide the best service possible for the money, improvement is always possible and should be encouraged. Adding performance benchmarks as criteria for deciding the level of funding provided to each agency would standardize procedures, encourage innovation, improve performance, hold agencies accountable for poor performance, and identify areas where improvement or training are needed.

Michigan transit agencies, for example, submit data to MDOT that allows each agency, along with their local board and residents, to review their performance over time in comparison to other Michigan transit agencies. For urban transit systems, similar data is submitted to the federal government so that Michigan transit agencies can compare themselves to peers around the country. The tools are readily available to local boards and local voters to establish appropriate performance standards for their transit systems and hold them accountable for their performance.

**Share human resources among agencies through strategic workforce planning and cross training.**

Each transportation agency performs their own human resource and strategic workforce planning functions. Sharing these functions across agencies will help eliminate duplication of effort and create savings through economies of scale. The benefits of this approach would include greater employee productivity and understanding, reduced overhead and administrative costs, along with greater innovation and regionalism.

**Re-establish state offices overseas.**

In the past, Michigan had offices overseas designed to attract new businesses to the state from those countries. These overseas offices also assisted Michigan companies in the delivery of goods and services to foreign buyers. Without these offices, smaller Michigan companies have a more difficult time competing in a global marketplace. Re-establishing state government offices overseas would help improve economic relationships in those countries, improve the flow of exported Michigan goods, encourage foreign investment in Michigan businesses, invite economic development and increase state revenues. At a time when it is clear that the marketplace for Michigan products and services is truly a global one, Michigan cannot afford not to do everything possible to facilitate international business relationships.

### **Streamline wetland mitigation on state and local right-of-way.**

It is a requirement of state and federal law that transportation agencies replace wetlands impacted by highway construction. New wetlands are created to replace those that are taken at a rate of 1.5 to 2 acres for every acre of wetland destroyed. The Task Force is concerned that the definition of *wetland* may be applied too stringently and that the cost of mitigation prevents local road agencies from going forward with needed road improvements. Data is not available for the cost of wetland mitigation at the county level, but MDOT spent \$2.4 million for wetlands mitigation for state road and bridge construction projects from 2006 to 2008. MDOT was able to achieve considerable cost savings through its Wetlands Banking program, which enables the department to create and “bank” wetlands for future mitigation at about one quarter the cost of a project specific wetland creation. If local road commissions were able to purchase wetlands from the state’s banking program, significant savings in time and resources could be realized.

### **Reinstate the Airport Service Program, All Weather Airport Access Program, Pavement Marking and Crack Sealing Program, and Airport Rescue and Training Program.**

The main purpose of the Airport Service Program is to recruit and retain airline services at Michigan’s air carrier airports. The All Weather Airport Access Program funds unmanned automated weather observation stations that provide real-time weather conditions to pilots and air traffic controllers. The Pavement Marking and Crack Sealing Program has a safety component (runway marking) and preventive maintenance component (pavement preservation through early preventive maintenance treatments). The Airport Rescue and Fire Fighting Training Program provides realistic firefighting training to local rescue personnel at their “home” airport using a mobile, live, fire trainer aircraft. Currently, these programs are not funded or are funded at reduced levels, due to a lack of revenue. Reinstating them will require additional investment, but doing so will provide valuable benefits in the form of expanded air service, improved safety, reduced maintenance costs, and increased mobility and connectivity options for businesses and citizens.

## ***Funding Efficiencies and Reforms***

### **Ensure state match funds for all federal capital allocations.**

Throughout its deliberations, the Task Force stressed the need to provide sufficient state revenue to capture all available federal aid. Some transit capital projects are already going unmatched and MDOT projects that by 2010 there will not be enough state revenue to fully match funds for highway, road and bridge programs. If Michigan transportation agencies are unable to match federal aid, millions of dollars, and thousands of Michigan jobs, will be lost.

### **Provide incentives for implementation of new efficiencies by creating a grant program or funding source to match start-up costs.**

The public comment offered by many local transportation officials noted that they strive to be as efficient with their funds as possible, and could be more efficient if they had some additional money for items such as the purchase of emerging technology. Providing incentive funding as proposed by this recommendation would allow transportation agencies to implement efficiencies to improve service or reduce administrative costs. The additional funding would motivate agencies to cooperate and share best practices, while achieving significant savings upon implementation that could be redirected to other priority programs and services. In creating these new programs, however, there should be a focus on ensuring they can remain in place after the start-up funds have been exhausted.

**Eliminate diversion of transportation funds away from transportation use.**

In the past, state government decision makers have redirected General Funds allocated to the CTF and the TEDF for non-transportation purposes. Since 1991, over \$137 million has been redirected from the CTF, which has significantly impacted local transit services, programs, and funding available for state match for capital projects.

Similarly, state restricted funding that could be used for road and bridge projects has been allocated to the Departments of State and Treasury for costs associated with the collection of vehicle registrations and motor fuel taxes. In FY 2008, over \$27 million was appropriated directly from the MTF to these agencies. In total, over \$108 million in service fees from look-up fees, certificates, vehicle registration fees, and title fees are projected to be deposited into the Transportation Administration Collection Fund to cover administrative costs for these services. Redirecting this funding back to the MTF would increase funding for state and local road and bridge construction. Making an explicit appropriation to cover the cost of revenue collection would create an incentive to simplify and reduce the cost of these operations.

In addition to the crediting of funds to the Transportation Administration Collection Fund, vehicle registration revenues have begun to be appropriated to the Transportation Safety and Law Enforcement Fund, for use by the Department of State Police. These fees should be recovered for transportation use.

According to the most recent Auditor General report for the Use of Transportation-Related Funding (September 2008), the audit disclosed a reportable condition for the Department of Treasury, "The Department of Treasury did not allocate expenditures to the Michigan Transportation Fund and State Aeronautics Fund based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act." Essentially, this finding indicates that the payments made to reimburse the Department of Treasury for motor fuel collections costs are not based on established cost allocation methodologies and it is unclear whether these payments accurately reflect actual collection costs. This finding suggests that further efficiencies could be achieved in the Department of Treasury's cost allocation plan methodology to reduce the amount of transportation revenue diverted from transportation programs and services.

**Provide incentives for performance through block grants to local transit agencies.**

The current allocation methodology for local transit agency operational costs does not include incentives to maximize services at minimal cost. Each local transit agency is allocated a fixed percentage regardless of how efficiently services are being delivered. This proposal would allocate additional funding to local transit agencies to encourage better performance. It would be designed to encourage actions that improve transit services or provide significant administrative or overhead savings. Although such a program would require additional funding, benefits would be returned through the delivery of more efficient services, sharing of innovative strategies among agencies, expansion of transit services, and policy changes that encourage and foster a mindset of continuous improvement.

**Allocate a minimum of 95% of state and federal funds to Tier 1 and Tier 2 airports.**

The Michigan Aviation System Plan designates 95 of the 235 general aviation airports as Tier 1 or Tier 2 airports. These represent the most economically beneficial airports in Michigan and they provide the majority of services for tourism, businesses, recreation, and population centers, as well as service to isolated areas of the state. Ensuring that 95 percent of state funding goes to high economic value airports would prioritize limited funding available for airports, while generating significant economic benefits.

### **Allocate new or additional road funding based on vehicle miles traveled.**

Public Act 51 of 1951, as amended, currently governs the distribution of funds to transportation agencies. In the section of the Act 51 formula that distributes the county share among the 83 county road commissions, two thirds of the present formula is governed by population and vehicle-registration values, and about one-third by road mileage. The formula is not sensitive to lane-miles (road width) nor to the cost of acquiring right-of-way for road widenings. Only 6.67 percent of the formula depends on the mileage of high-cost, high-volume urban and suburban "primary" roads. The formula disadvantages counties that have urbanized since it was adopted. One way of correcting this would be to make the formula sensitive to the number of vehicle-miles traveled on each road. At present, data do not exist to do this and it would take several years and extensive expansion of data-collection efforts to make the data available.

### ***Other Recommended Efficiencies***

A number of other efficiencies were discussed by the Task Force including:

- Implement "best practices" from around the country
- Expand the Construction Quality Partnership
- Amend P.A. 51 of 1951 to allow the formation of regional road agencies
- Maintain a strong public role in transit, particularly at the local level
- Adopt policies, programs, and funding incentives that increase the role of transportation officials as "mobility managers"
- Improve intermodal terminal coordination
- Stabilize funding for transit services to ensure long-term planning and extend Article IX/Public Act 51 of 1951 transportation funding protections to all CTF revenues to preclude future transfers to the General Fund
- Strengthen the role of Metropolitan Planning Organizations to enforce multi-modal "priority route" funding decisions
- Provide efficiency studies, expertise and direction to local agencies
- All agencies should provide an annual staffing level justification

A complete list of all the efficiencies, reforms, and best practices provided to the Task Force is available by clicking "View Final Report" at [www.michigan.gov/tf2](http://www.michigan.gov/tf2).

**Figure 16: Preliminary Recommendations – Efficiencies and Reforms**

Key: ● = High ◐ = Medium ◑ = Low	Benefits					
	Creates Monetary Savings	Fosters Economic Development	Improves Accountability	Encourages Regionalism	Creates Administrative Efficiencies	Improves Safety, Mobility or Connectivity

**Administrative Efficiencies & Reforms**

Continue to review bonding/refinancing policies for savings	●	◐	◐	◐	◐	◐
Reclassify MTF Funds as "trust funds"	●	◐	●	◐	◐	◐
Grant additional audit authority	◐	◐	●	◐	◐	◐
Eliminate redundant reporting requirements	◐	◐	◐	◐	◐	◐
Post expenditures on-line	◐	◐	●	◐	◐	◐

**Organizational Efficiencies & Reforms**

Create corridor authorities	●	●	●	●	●	●
Encourage regionalism	●	◐	●	●	●	●
Expand use of value engineering to all projects	●	◐	●	◐	◐	◐
Expand Asset Management Program	●	◐	●	●	●	●
Expand STC authority to establish standards	●	◐	●	◐	◐	◐
Establish performance standards for funding allocations	●	◐	●	◐	◐	◐
Share human resources & strategic planning functions	●	◐	◐	●	●	◐
Re-establish state offices overseas	◐	●	◐	◐	◐	◐
Streamline wetlands mitigation	◐	◐	◐	◐	◐	◐
Reinstate various Aeronautics programs	◐	◐	◐	◐	◐	●

**Funding Efficiencies & Reforms**

Ensure state match for federal capital allocations	●	◐	◐	◐	◐	●
Provide incentives to implement new efficiencies	●	◐	◐	●	●	◐
Eliminate fund diversions	●	◐	●	◐	◐	◐
Provide incentives for performance behaviors	●	◐	●	◐	◐	●
Allocate minimum of 95% of state/federal funds to Tier 1 & 2 airports	◐	●	●	●	●	●
Allocate funding based on vehicle miles traveled	◐	●	◐	◐	◐	●